AeA Cyber Research Series

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CAFTA-DR

The Misunderstood Trade Agreement, More At Stake Than Most Realize

Overview

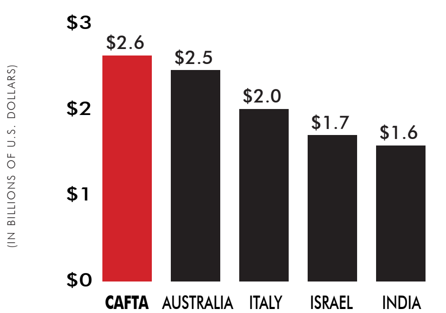
- ❖ THE U.S. EXPORTS MORE HIGH-TECH GOODS TO CAFTA THAN TO AUSTRALIA, ITALY, ISRAEL, OR INDIA
- ❖ THE U.S. CURRENTLY ENJOYS A TRADE SURPLUS WITH CAFTA IN HIGH-TECH GOODS — IMAGINE HOW MUCH LARGER IT COULD BE WITHOUT TRADE BARRIERS
- ❖ BETWEEN 1998 AND 2004, HIGH-TECH EXPORTS TO CAFTA COUNTRIES NEARLY DOUBLED
- ❖ OF THE 200+ COUNTRIES THE U.S. EXPORTS TO, ONLY 17 WERE LARGER EXPORT DESTINATIONS FOR TECH PRODUCTS THAN CAFTA
- ❖ FAILURE TO PASS CAFTA CEDES OUR COMPETITIVE ADVANTAGE IN THIS REGION TO OTHERS, WHICH IS UNACCEPTABLE.

Analysis

The Central American Free Trade Agreement (CAFTA) holds the promise of new opportunities and expanded markets for a wide array of U.S. high-tech merchandise exporters, manufacturers, services providers, and their employees. Unfortunately, CAFTA is in danger of stalling at just the time when such an agreement is needed.

U.S. HIGH-TECH EXPORTS TO SELECTED COUNTRIES

2004



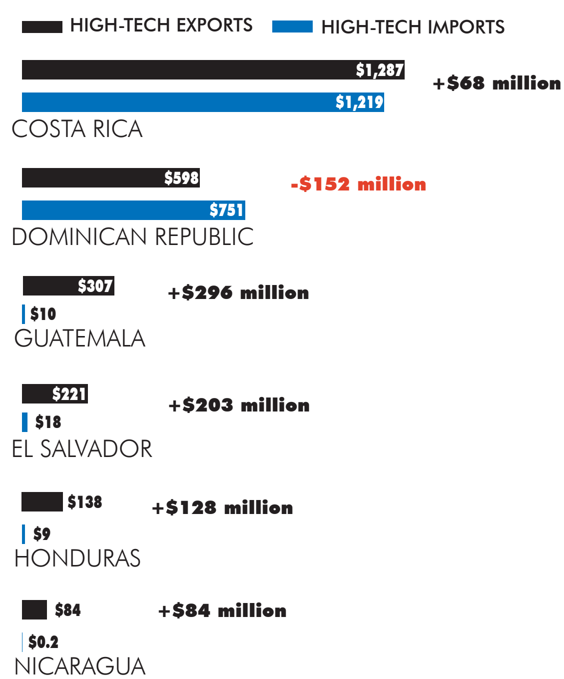
The United States, and in particular the high-tech industry, faces an intense global business climate that is dramatically more competitive than ever before. As market reforms continue around the world and international trade surges, the United States must prepare itself by negotiating lower barriers worldwide for U.S. products and services.

CAFTA would facilitate trade by opening the markets of Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua to U.S. goods and services. Removing tariffs will save U.S. exporters over $75 million annually on duties assessed to technology products alone.

U.S. HIGH-TECH TRADE BY COUNTRY

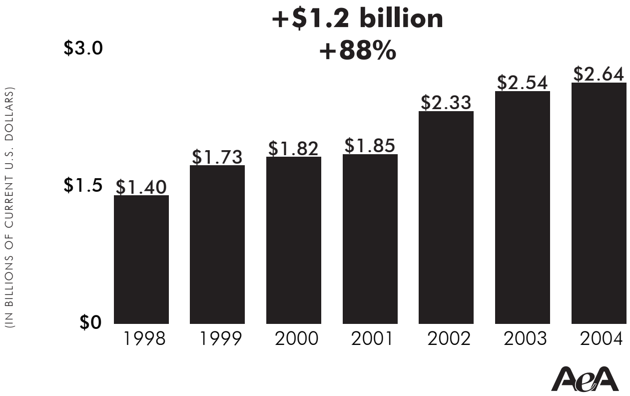
2004

(IN MILLIONS OF U.S. DOLLARS)



U.S. HIGH-TECH EXPORTS TO CAFTA

(1998 - 2004)



While many might deride CAFTA as too small or impoverished to matter, this opinion does not match the facts of the case.

The six countries that make up CAFTA are not an insignificant market. The U.S. high-tech industry exported more goods to CAFTA than to Australia, Israel, Italy, or India.

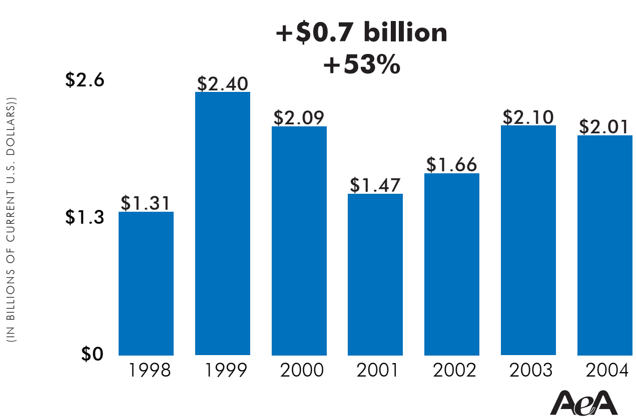
In fact, of the 200+ countries the United States exports to, only 17 were larger export destinations for technology products than CAFTA in 2004.

This is particularly impressive given that the U.S. has already secured free trade agreements with Australia and Israel which eliminated restraints on trade, while significant barriers still exist with many of the CAFTA nations. Imagine how many more computers, cell phones, routers, peripherals, or servers would be sold if these barriers disappeared.

Lowering barriers for U.S. goods and services entering CAFTA markets is crucial to promoting American companies, products, and services. The alternative is to forgo the job creation and revenue growth that follows increased trade.

U.S. HIGH-TECH IMPORTS TO CAFTA

(1998 - 2004)



As the following data illustrate, the CAFTA trading bloc is not only sizable, but represents an area of high growth. First, we examine trade statistics at the level of individual CAFTA nations, then we look at each sector of high-tech imports and exports within CAFTA as a whole.

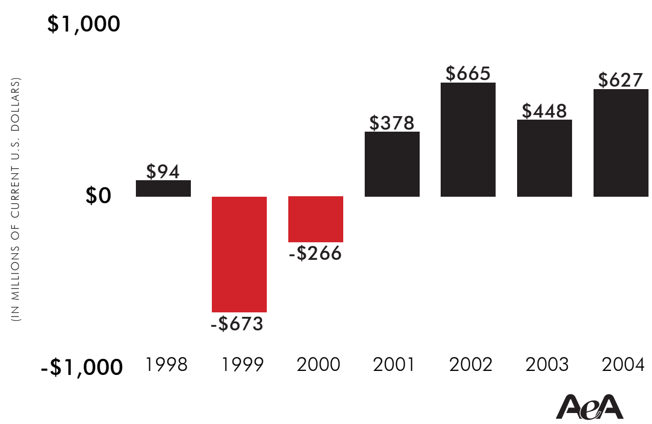
U.S. Trade with CAFTA Nations

In 2004, the United States exported $2.6 billion worth of high-tech goods to the six CAFTA nations. This represents an increase of $1.2 billion over 1998, a remarkable 88 percent surge.

With the removal of barriers for U.S. products and services, this market could expand even further and fuel job growth in the United States. Every $1 billion in electronics exports supports approximately 5,200 American jobs, based on data derived from the U.S. Census Bureau.

U.S. HIGH-TECH BALANCE OF TRADE

(1998 - 2004)



The potential loss in U.S. job growth and revenue is too costly a price to pay for American high-tech companies and their employees. And the opportunity is too great. The CAFTA market for U.S. exports has shown incredible resiliancy, nearly doubling in six years with increases every year, even through the bursting of the high-tech bubble in 2001.

But if current tariffs and other non-tariff barriers remain in place, U.S. products and services could become more easily priced out of these growing markets by competitors, particularly from Asia. The United States cannot guarantee its continued foothold in the CAFTA bloc relative to foreign competitors unless trade barriers fall.

The majority of imported goods from CAFTA countries already enter the United States duty-free. In 2004, high-tech imports to the United States from CAFTA totaled $2 billion, a 53 percent increase from 1998.

In terms of market access, the United States stands the most to gain from a swift approval of CAFTA. The agreement would level the playing field and further enhance the U.S. balance of trade with the CAFTA bloc.

It would also provide a competitive advantage to the United States against increasingly aggressive competition for the CAFTA market from Asia, Europe, and elsewhere.

High-Tech Sector Trade with CAFTA

When viewing the region as an integral trading bloc we can drill down to the sector level within total tech trade and find a more diverse market than is often assumed.

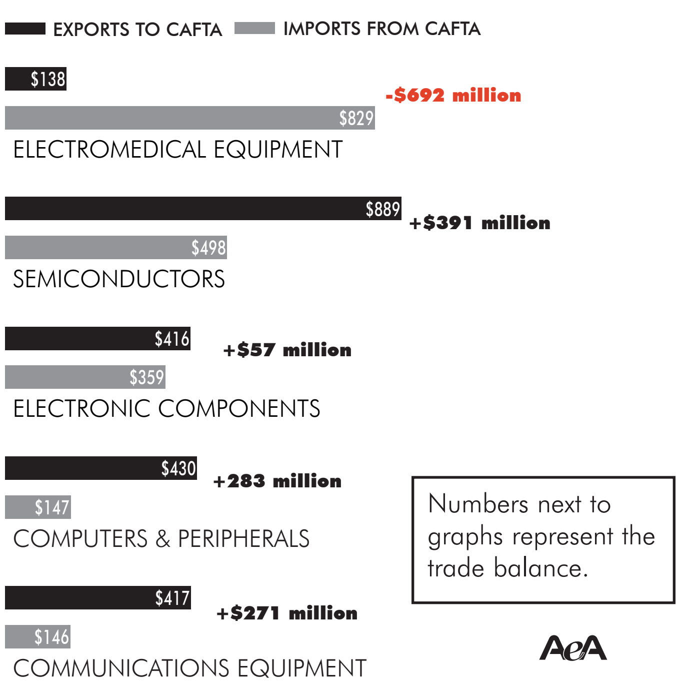
While the semiconductor sector is clearly a leader in both imports and exports between the United States and CAFTA, several high-tech sectors engage in considerable two-way trade. Lowering barriers would benefit all these arenas – not just one country, one sector, or one handful of companies or workers.

The United States exported $889 million worth of semiconductors to CAFTA nations in 2004. The next leading high-tech export sectors for the United States were computers and peripheral equipment, communications equipment, and electronic components. Revenues from each of these sectors exceeded $400 billion for the U.S. All but one high-tech sector experienced growth in exports to the CAFTA bloc between 2002 and 2004.

U.S. TWO-WAY TRADE BY HIGH-TECH SECTOR

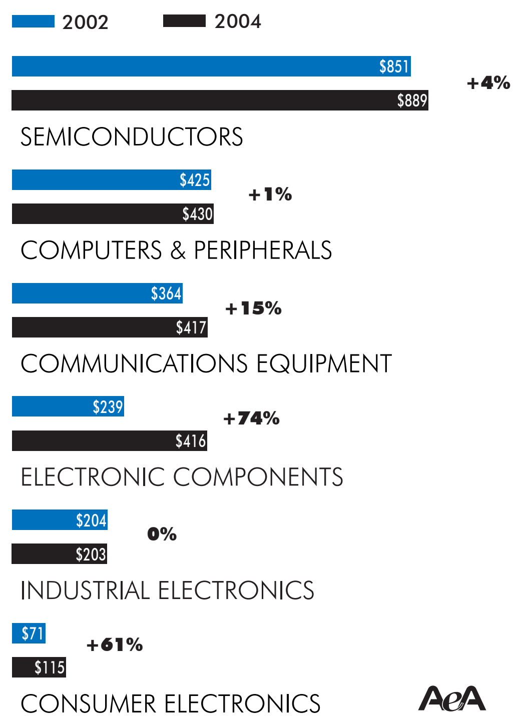
2004

(IN MILLIONS OF U.S. DOLLARS)



U.S. HIGH-TECH EXPORTS TO CAFTA

(IN MILLIONS OF U.S. DOLLARS)



These statistics highlight a broader trend. The Central American region is not only larger and more significant than opponents allege, it is also a high growth region – especially for high-tech trade – and will continue to be for some time.

The illusion lies in believing that only U.S. manufacturers can serve this market and therefore, as long as the market is thriving, let well enough alone.

But countries that increasingly compete with the United States on cost, skill, and productivity will not leave well enough alone. If we do not negotiate market access to the CAFTA bloc, our competitors will.

Trade in Services

CAFTA would also require member countries to liberalize their services sectors, most notably telecommunications. Signatories must implement regulatory reform to allow open competition and to guarantee access to public telecommunications networks and services.

With poorly developed landline networks and high demand for wireless and Internet services, all six countries represent huge growth markets for U.S. companies. Or, this demand could be met by foreign competitors if barriers to U.S. service providers remain prohibitively high.

Conclusion

Whether or not the United States signs on to CAFTA, trade will continue to and from Central America and the Dominican Republic. The only question will be how vigorously must U.S. companies and workers compete to sell their products and services in these markets. Without CAFTA they will be competing with one hand tied behind their back.

Free trade produces a win-win situation that raises standards of living and creates jobs on both – or in this case all – sides of the agreement. These countries are our southern neighbors. The fact that we would willingly cede our competitive advantage in this region to Europe or Asia is unacceptable.

More American jobs will be created by signing CAFTA than by letting it wither. CAFTA countries that are not now major trading partners could become so as their markets open and expand. And intellectual property – typically the core asset of any technology company – can only be protected by bringing countries into international trade agreements.

Forestalling CAFTA would also further set back attempts to lower trade barriers with countries of the Andean region of South America, and could derail ongoing attempts to create a Free Trade Area of the Americas (FTAA) and reopen negotiations in the Doha round of the World Trade Organization (WTO).

When high-tech companies large and small generate over 60 percent of their revenue from foreign markets and when job creation in the U.S. is intricately linked to exports, CAFTA is an important tool for U.S. growth.

Methodology

AeA generated all trade data from the U.S. Bureau of the Census. High-tech trade statistics correspond to AeA's high-tech manufacturing NAICS code definition. NAICS is the North American Industrial Classification System. All data are rounded.

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About AeA

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We do this in partnership with our small, medium, and large member companies by lobbying governments at the state, federal, and international levels, providing access to capital and business opportunities, and offering select business services and networking programs.

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